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PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of
The Hawaii Public Utilities Commission
Kekuanaoa Building
465 South King Street, 1st Floor
Honolulu, Hawaii 96813

Dear Commissioners:

RE: Docket No. 2008-0303 -- Application of Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited For Approval of the Advanced Metering Infrastructure (AMI) Project and Request to Commit Capital Funds, to Defer and Amortize Software Development Costs, to Begin Installation of Meters and Implement Time-of-Use Rates, for Approval of Accounting and Ratemaking Treatment, and Other Matters.

Pursuant to the Hawaii Public Utilities Commission's ("Commission") letter dated April 15, 2010, Hawaiian Electric Company, Inc. ("HECO"), Hawaii Electric Light Company, Inc. ("HELCO"), and Maui Electric Company, Ltd. ("MECO") (hereinafter collectively referred to as "HECO Companies") were required to file: 1) a revised procedural plan; 2) the status of relevant matters; and 3) the reasons for all aspects of the proposal. On May 4, 2010, the HECO Companies' filed their proposal, which contained the following:

- The remaining procedural steps in the docket should be suspended "pending the completion of the proposed Extended Pilot Testing . . . and the submission of a report by the [HECO Companies] with respect to the Pilot Phase."¹

¹ Page 1 of the HECO Companies May 4, 2010 letter.

- The status of relevant matters appears to largely consist of the HECO Companies recognizing that further testing of the Advanced Metering Infrastructure ("AMI") technology is needed in an extended pilot testing to ensure the anticipated functionality. Upon the completion of the pilot, the HECO Companies will have better data to make the proper investment.²
- The HECO Companies are requesting to defer the AMI Pilot testing costs and the mechanism to recover those deferred costs would be determined later during the determination of the recovery of the AMI project. The alternative, as proposed by HECO, is to include the non-capital costs for the Pilot Phase as expenses in the 2011 test year rate case for HECO.³
- The HECO Companies also provided a discussion of their Customer Information System ("CIS") and Smart Grid plans.

SUMMARY.

The Company's proposal to do additional testing with the purpose of better evaluating the technology and its ability to meet expectations is not objectionable. In order to allow sufficient time for this additional testing, suspending the remaining procedural steps is one alternative, but the Consumer Advocate contends that closing the instant proceeding is also a valid alternative that should be considered. If the Commission is inclined to allow the instant proceeding to remain open, it should be made clear that there should be no additional Allowance for Funds Used During Construction accrued during the pilot testing and until the Commission approves how the AMI project should proceed. The Consumer Advocate also has reservations about the requested deferral of costs for later determination.

THERE ARE STILL MANY UNANSWERED QUESTIONS ABOUT THE AMI.

As discussed in the Consumer Advocate's testimony in the instant proceeding, the Consumer Advocate supports the concept of an AMI and Smart Grid initiative as both are integral parts to facilitating Hawaii's transition to a clean energy economy,⁴ there were, however, many issues with the Company's proposed project. The Consumer Advocate contends that there are still many unanswered questions and issues with the proposed project. The Consumer Advocate assumes that, by the HECO Companies' request to extend hearing dates and, finally, to conduct further testing and

² Id, page 7.

³ Id, page 12.

⁴ See, e.g., page 54 of CA-T-1.

suspending the procedural schedule, the HECO Companies recognize that further planning and support is required before they should move forward.

As mentioned in the Consumer Advocate's testimony, for a project with such importance to Hawaii's energy future as well as with such substantial costs, there should not be such significant unanswered questions. Thus, the HECO Companies' proposal to conduct additional investigation through an extended pilot test represents a reasonable proposal in order to avoid moving forward with a project with unproven technology and functionality in Hawaii's environment, which would or could face disallowance of the incurred costs if that project ultimately did not provide the expected benefits or functionality.

However, the Consumer Advocate contends that even if the proposed extended pilot helps to identify a feasible and cost efficient solution to the AMI needs of the HECO Companies, that solution is only part of an overall solution that the HECO Companies must make clear before forging ahead with an AMI project. Two important other pieces of Hawaii's energy future that should work in synergy with any AMI technology is the CIS and Smart Grid system. Even if the advanced meters and the associated infrastructure such as the meter data management system ("MDMS") work perfectly, if the CIS is not yet operational and/or not capable of integration with the AMI and MDMS without significant effort and/or cost, the investment made into the AMI project will be an expensive and possibly ineffectual investment made. That is, without the proper planning and integration between the CIS and AMI system, the AMI will not provide meaningful benefits as demand response, time of use, and other programs will not be possible without considerable labor intensive efforts by the HECO Companies. Additionally, the Consumer Advocate continues to contend that without a clear vision as to how the future Smart Grid will be implemented, putting in AMI technology may result in obsolescence and wasted investment into that AMI technology, if the AMI technology is not compatible or easily integrated into the Smart Grid.

THE HECO COMPANIES' PROPOSAL RAISES EVEN MORE QUESTIONS ABOUT THE COST OF THE PROJECT.

One of the questions raised in the Consumer Advocate's testimony was whether the proposed AMI project was cost effective and a prudent investment decision. The Consumer Advocate contends that the HECO Companies' May 4, 2010 letter does not assuage those concerns. The proposed extended pilot will help to provide information that may address certain questions about whether the intended technology will be effective in Hawaii's environment and will serve to provide functional benefits to all customers instead of a majority. It does, however raise additional questions about the project and its associated costs.

While it is possible that there will be intangible benefits and costs associated with the AMI project, there should be a much better identification of the tangible costs and benefits and a much better showing of the cost effectiveness of the project before it

should be approved. Now, with the proposed suspension of the procedural schedule and the likely addition of costs associated with the proposed extended pilot program, the need for such a showing is made even clearer. Yet, the HECO Companies' proposal does not make things clearer. Other questions are created by the HECO Companies' proposal. For instance, in the application as originally filed in the instant application, the HECO Companies indicated that there would be about \$13.5 million. The Consumer Advocate also raised concerns about delays in the project for various reasons resulting in additional costs due to AFUDC accruals increasing.⁵ In this instance, if the AMI project is delayed because of the extended pilot and the HECO Companies continue to accrue AFUDC, then the concern that was raised will be realized.

Another question that is somewhat related to the proposed extended pilot is whether it is appropriate to allow a pilot program to occur during what is ostensibly a capital improvement project. Generally, any pilot programs should occur prior to the application, rather than during the application. Otherwise, the concern being raised about the project being unnecessarily delayed, which would increase the AFUDC accrual and, as a result, ratepayers will be paying more than might be reasonable. As identified by the HECO Companies, the proposed extended pilot will not be completed until sometime in 2011. Thus, if the proposed extended pilot is allowed to occur during the instant application without the proper precautions, this could result in the total project cost increasing beyond the original estimate, notwithstanding any assertions to the contrary.

CONCLUSION.

The Consumer Advocate believes that there are valid reasons why the instant proceeding should be closed. Once the instant proceeding is closed, the HECO Companies could then conduct their proposed extended pilot project and obtain the necessary information to address questions about whether the appropriate technology and solution is being investigated. At the conclusion of the pilot, if the HECO Companies determine that the appropriate solution has been identified, the HECO Companies could then file a new application with more confidence that they will be able to support their application.

On the other hand, there may be some value to allowing the instant proceeding to remain open to allow the Company a forum within which the HECO Companies can keep the Commission and the Consumer Advocate apprised of its progress with the extended pilot program and other relevant matters, such as its Smart Grid plan. If this alternative is selected, however, the Consumer Advocate recommends that the Commission implement the appropriate measures to protect the public interest. Such measures could include, but not be limited to, ensuring that the proper records are kept

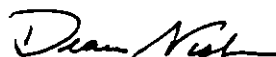
⁵ CA-T-1, page 47.

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to clearly identify the costs incurred prior to the pilot, during the pilot, and costs that may later be incurred subsequent to the pilot related to the AMI. Such record keeping is necessary to allow the identification of costs that may be subject to further scrutiny in terms of costs associated with the AMI project as originally described, the additional pilot testing, and revised AMI project that may result. Another measure that the Commission should consider is that the HECO Companies should not allow the further accrual of AFUDC at least as of the requested suspension of the hearing.

At this time, the Consumer Advocate would prefer the closure of this docket. Many unanswered questions remain that could lead to other issues. Thus, the Consumer Advocate reserves its rights to provide additional comments once there are more facts and/or evidence available.

Sincerely yours,



Dean Nishina
Executive Director

DN:dl

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